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How advisors guide clients with year-end charitable giving

By Rob Burgess
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As the year closes, many clients have generosity on the brain.

But those who aren't careful may donate to less than reputable organizations, pay more than they need to in taxes or generally squander their altruistic instincts.

Advisors who have experience with maximizing the impact of holiday-season giving say there are several effective, tax-efficient strategies available to those who take the time to be strategic and do their homework in order to maximize their generosity.

Helping clients clarify their charitable intentions

One aspect of year-end planning at his firm involves discussing charitable intentions, said Michael Resnick, senior wealth management advisor at Alera Group in Deerfield, Illinois.

Charitable giving is an integral part of many clients' financial plans, especially during the holidays when generosity is top of mind, said Tushar Kumar, private wealth advisor at Twin Peaks Wealth Advisors in San Francisco.

Dawn C. Abernathy, a financial planner with Core Planning in Chesterfield, Missouri, said while she wants clients to save and invest for the future, she encourages them to make charitable giving part of their budget and ongoing financial plan.

"This practice assists them with having a healthy mindset and purpose for money instead of becoming consumed with stockpiling money for themselves," she said. "I encourage them to consider the people, causes or situations in the world that they would like to support or improve."

In his experience advising on "thoughtful charitable giving," Arvind Rongala, CEO of employment development company Edstellar, said it's important to begin with a clear plan that reflects the values and intentions of each client.

"If a client cares about education, I recommend making gifts to scholarships or underprivileged schools," he said.

David Flores Wilson, the managing partner of Sincerus Advisory in New York City, said he starts by determining a client's "why" when it comes to charitable giving. He said he uses a series of cards to rank which values guide their focus, including fairness and community.

"Then we'll probe about their volunteering and past giving history to see themes around particular issues and causes," he said.

In addition, Wilson said he has clients rank issues like education, health and poverty so they can narrow their focus prospectively.

"Once the important issues have been identified, we help clients identify the type of organizations they want to support and provide a framework for evaluating the nonprofit over time," he said.

Trust, but verify

Nate Towers, director and financial advisor at Five Pathways Financial in Scottsdale, Arizona, said to help clients assess which charitable causes are legitimate, he guides them through a systematic vetting process "to help protect their generosity" so their "contributions make a genuine impact."

"We will talk about why they are passionate about the cause, and then I'll look at the organization's financial information along with the outcomes," he said. "I may talk to the organization's leadership and identify the main supporters while assessing its reputation. While most advisors don't feel it's their responsibility to step in here, it can be particularly useful in helping my clients give with confidence."

Betty Pettine, managing director of philanthropic consulting at Callan Family Office in Philadelphia, said when making a sizable contribution to a charitable initiative, building a relationship with the beneficiary is crucial and often involves in-person site visits, as well as gathering testimonials or endorsements from credible sources familiar with the organization.

"Verify the charity's mission aligns with your values, and assess their track record for measurable outcomes and effectiveness," she said.

Kumar said to ensure charitable causes are legitimate and align with clients' values, he recommends an organization called Give Team.

"They specialize in helping individuals become more intentional with their giving, ensuring donations have the desired impact," he said.

Rongala said he also advises clients to check the results of their gifts, cross-referencing transparency and effectiveness using tools such as Charity Navigator.

"Emotional giving without proper diligence is another trap that I've trained clients to steer clear of," he said. "Some are tempted to make quick donations over the holidays and regret making contributions to less influential organizations in the future. For example, I've referred clients to real-world local food banks rather than fake online fundraisers."

Jeff DeLarme, president of DeLarme Wealth Management in Palos Verdes Estates, California, said while he doesn't help clients determine which charitable organizations to support, he does encourage them to conduct their own due diligence. In addition to Charity Navigator, DeLarme said GuideStar can help donors better understand and evaluate specific nonprofits.

"In some cases, donors may learn that very little of their contribution may go to a given charity's actual mission and instead gets eaten up in administrative and operational expenses," he said.

Keeping an eye on taxes

Frederick Brooks, senior financial advisor and director of investment management at Blankinship & Foster in Solana Beach, California, said he spends a significant amount of time working with clients on philanthropy. He said the first stop is their tax return.

"Are they getting the deduction they deserve?" he said. "If not, how else can we make it work?"

Greg Hammond, CEO of Hammond Iles Wealth Advisors in Wethersfield Connecticut, said the best way to assist clients with charitable giving is to make them aware of the various charitable giving strategies available to them.

"You do not need to be a Bill Gates or Warren Buffet to take advantage of tax-efficient giving strategies," he said. "Taking advantage of various strategies can leverage their gift to either be able to give more or potentially save on taxes."

Adam Nash, co-founder and CEO of financial platform Daffy, said if a client's holiday season involves financial windfalls like bonuses or stock compensation, it's a good time to start thinking ahead to how that income will impact their taxes.

"Making strategic donations now can reduce your taxable income and lower your tax burden come next April," he said.

Gifting appreciated stock is a tax-efficient option

Kumar said gifting appreciated stock is a tax-efficient approach that his firms often recommend, as it enables clients to maximize their contributions while reducing capital gains tax.

"This strategy is so simple and often overlooked due to laziness," he said.

Hammond said he advises clients to "save twice with one gift" by giving appreciated investments.

"Don't give cash," he said. "Most people think a charitable donation equals cash, writing a check or paying with Venmo or a credit card. A more tax-efficient

option would be to donate shares of an appreciated stock, mutual fund or exchange-traded fund. Not only will the donor get a potential charitable tax deduction for the full market value of the investment if owned for more than a year, but they also avoid potentially paying the capital gains tax on the unrealized appreciation."

Qualified charitable distributions are available to older clients
The qualified charitable distribution (QCD) is available only to IRA owners and IRA beneficiaries who are age 70½ or older. It allows them to donate up to $105,000 total to one or more charities directly from a taxable IRA instead of taking their required minimum distributions (RMDs).

Dave Flegal, founder and financial planner at Flegal Financial Planning in Cleveland, Ohio, said if a client's RMD for the year is $10,000 and they normally give $10,000 to charity, he will encourage them to do QCDs from their IRA.

"Some clients like to give physical checks to the charity," he said. "If that's the case, we can get them a checkbook for their IRA."

Paul N. Winter, president of Five Seasons Financial Planning in Salt Lake City, Utah, said one potential pitfall that he helped a client avoid this year was that the client had already taken his IRA RMD for the year through a combination of QCDs and taxable RMDs.

"As an afterthought decided that he wanted to make another donation to charity from his IRA," he said.

The related ordering rules wouldn't have resulted in QCD treatment because of the "first dollars out" rule.

"He ended up donating appreciated ETFs from his trust account instead at my suggestion, with the potential benefit that the value of the donation would add to his itemized deductions," Winter said.

Hammond said QCDs are a great way to make an impact on a nonprofit with before-tax dollars.

"The donor does not get a charitable tax deduction for the donation, but the distribution is excluded from income," he said. "By being excluded from income, the donation not only avoids federal income taxes but can also save on state income taxes since many state income tax calculations use the federal taxable income."

However, Brooks said his firm often checks to ensure that QCD checks have been deposited.

"We've caught a few that didn't get delivered," he said. "It's all part of what makes year-end so much fun."

Donor-advised funds remain a popular tool
A donor-advised fund (DAF) is a fund clients establish to set aside cash and other assets for charitable giving.

"You receive a tax deduction for the amount given to the fund in the year contributed, and the assets are available for you to donate to specific charitable organizations at any time," said Bryan A. Cassick, lead advisor at Warren Street Wealth Advisors in Irvine, California.

Donations of appreciated assets, such as stock or real estate, can be made to the DAF without paying capital gains taxes, said Cassick.

"Any further growth of assets in the DAF is not taxable to you since it is already irrevocably reserved for charitable gifts," he said.

Rongala said DAFs are a popular tool that is tax-effective and nimble.

"I like them because they help clients increase their charitable giving over time while letting them choose specific charities later on," he said.

Kumar said his firm favors DAFs because they allow clients to realize immediate tax benefits while giving them the flexibility to distribute funds to charitable causes at a time that aligns with their personal goals.

"Many of our tech clients have years of extraordinarily high taxation due to restricted stock units and stock sales, so DAFs can help in these circumstances," he said.

Flegal said DAFs can be particularly beneficial for clients who have large unrealized gains in assets in the brokerage accounts.

"Clients can gift these funds to the DAF, receive a tax deduction for the fair market value of the assets, and avoid paying tax on any of the gain," he said. "Money is then granted from the DAF to charities often over a multiple-year period."

Using DAFs in a 'bunching,' 'bundling' or 'batching' strategy
Resnick said DAFs allow individuals to bundle several years of charitable donations into one high-earning year, maximizing tax benefits while spreading gifts to various charities over time.

"DAFs also enable clients to donate appreciated assets, such as stocks or business interests, into the fund, with the tax deduction occurring at the time of the donation," he said. "Additionally, DAFs can serve as a family charitable pool, where children can participate in deciding which charities receive donations."

Hammond said bunch deductions simplify charitable tax deduction reporting,

and help offset any spike in income by using a DAF.

"For many taxpayers, using the standard deduction means there is no tax benefit to their charitable giving," he said. "The amount of their giving and other itemized deductions is less than the standard deduction. One strategy to exceed the standard deduction to get a tax benefit from charitable giving is to bunch several years' worth of charitable donations into a single-year donation to a DAF. This will allow the taxpayer to itemize their deductions in the year the 'bunched' donation is made to the DAF and then use the standard deduction in the subsequent years as funds are paid out of the DAF."

Hammond said this can offset a spike in income during a specific year when someone receives a bonus, sells a business or offloads appreciated investments.

"In addition, chasing down tax receipts from making donations to multiple nonprofits and organizations can be cumbersome," he said. "Using a DAF can simplify charitable giving tax reporting by only needing a single donation letter from the DAF, no matter how many organizations receive grants from the DAF."

Cassick said using this technique allows donations to a chosen charity to subsequently happen on whatever timeline the client wants.

"This is a great tax-mitigating tool for a particularly high-income year and a useful ongoing strategy to maximize the tax benefits of your charitable giving," he said.